Agenda Item 8b
September 19, 2005

Attachment 2

CalPERS
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June 13, 2005

AGENDA ITEM: 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Environmental Strategic Plan Update

II. PROGRAM: Global Equity

III. INFORMATION: Update

IV. ANALYSIS:

Executive Summary

On February 14, 2005, the Investment Committee approved the Corporate Governance Environmental Strategy ("Strategy") consisting of four targeted initiatives (Attachment 1). The objective of the Strategy is to facilitate the improvement of disclosure on greenhouse gas ("GHG") emissions and timely reporting of environmental data at portfolio companies. The four targeted initiatives of the Strategy include:

1) Sign onto the Carbon Disclosure Project.
2) Support GHG data transparency within the auto industry, including support of shareowner proposals and potential Focus List candidates.
3) Explore opportunities to improve GHG data transparency within the electric power/utilities industry.
4) Recognize corporate disclosure "Best Practices."

In this agenda item, staff provides an update on the early progress of each initiative.

Background

In 2004, CalPERS was asked by California State Treasurer Phil Angelides and California State Controller Steve Westly to consider environmental issues with respect to the potential impact on the Fund. Further, CalPERS was asked to take an active role in encouraging companies to provide meaningful, consistent, and robust reporting of their environmental practices, risks, and potential liabilities. After exploring the issue, staff believed that improved data transparency could help long-term risk assessment at the companies in which CalPERS invests. Therefore, four targeted initiatives were identified to facilitate improving environmental data transparency. On February 14, 2005, the Investment Committee approved the Corporate Governance Environmental Strategy and directed staff to proceed with the four initiatives outlined therein.

Staff has continued to build its expertise regarding the issue of environmental data disclosure and climate change. Global, national, and state regulatory risks to publicly traded companies continue to gain momentum with the most noticeable emphasis being placed on climate change.

Recent Supporting Events

At the World Economic Forum in January 2005, climate change was one of two major issues highlighted with participants urging the adoption of technology to reduce GHG emissions.

On March 30, 2005, 10 mayors formed the U.S. Mayors Climate Protection Agreement and invited 400 other mayors to join. To date, 132 mayors from 35 states have joined the bipartisan coalition's fight against global warming at the local level and are striving to meet the terms of the Kyoto Protocol in their respective cities. In addition, the Environmental Protection Agency's Clean Air Interstate Rule ("CAIR") took effect on May 12, 2005. CAIR requires 28 eastern states and the District of Columbia to reduce harmful emissions from coal-burning power plants by 2015 to assist states downwind of the pollutants in meeting their air quality standards and to protect public health.

Also in March, CalPERS' and CalSTRS' co-sponsored their first ever joint conference, "Institutional Investors' Cleantech Conference." The following day, CERES sponsored its first West Coast conference, "Climate Risk: What Investors Need to Know."

On May 10, 2005, the Institutional Investor Summit on Climate Risk took place at the United Nations Building in New York City. Attendance at this second annual event increased approximately 33% to 375 participants representing institutional investors, global financial firms, foundations, elected officials, and business leaders. The participants gathered to discuss the challenges and opportunities set forth by climate change.

Furthermore, during the Summit, the Investor Network on Climate Risk ("INCR") announced its "Managing Climate Risk and Capturing the Opportunities - A Renewed Call for Action" calling upon institutional investors, fund managers, financial advisors, companies and government to address the financial risks and investment opportunities posed by climate change. The number of signatories on the "Renewed Call for Action" more than doubled to 26. On May 16, 2005, CalPERS became a signatory on the 2005 "Renewed Call for Action."

Corporate Governance Environmental Initiative Update

Initiative 1: Support – Carbon Disclosure Project

The objective of Initiative 1 is to support the Carbon Disclosure Project ("CDP") by becoming a signatory on CDP's 2005 information request. The CDP sends its information request to the Financial Times 500 ("FT500") companies asking for investment-relevant data concerning carbon emissions. CalPERS became a signatory with 152 other investors on the reminder letter that was submitted on April 1, 2005 (Attachment 2). The 153 signatories of this year's project represent a 38% increase over last year.

The response deadline for the 2005 information request was May 31, 2005. A report summarizing this year's responses is expected to be released by October and subsequently forwarded to the Investment Committee.

Initiative 2: Improve Data Transparency – Auto Industry

The objective of Initiative 2 is to improve environmental data transparency and timely disclosure in the auto industry. This objective included supporting shareowner proposals that had been filed at Ford and General Motors. Staff determined that each proposal would facilitate the improvement of data transparency and timely disclosure without posing long-term harm to either company. In addition to voting "For" both 2005 shareowner proposals, staff submitted letters to the companies communicating CalPERS' vote intention and encouraging both boards to comply with the specific proposal request. Lastly, CalPERS hired a proxy solicitor to support both proposals.

Directly following the February Investment Committee meeting, staff contacted Ford and General Motors to initiate a dialogue regarding the proposals and CalPERS' position. On March 31, 2005, Ford announced its plans to issue a report on Climate Change by the end of 2005 and as a result the co-filers withdrew their proposal.

General Motors was unable to come to a resolution with the co-filers of its shareowner proposal. Therefore, consistent with the Investment Committee's direction, CalPERS in a joint effort with CalSTRS, submitted a letter to the company Board of Directors communicating our support of the proposal and requesting compliance with the specific proposal requests (Attachment 3).

CalPERS and CalSTRS moved forward with hiring a proxy solicitor to garner additional institutional investor support for the proposal. General Motor's Annual General Meeting was held on June 7, 2005 and CalPERS voted "For" the "Report on Emissions Reduction and Competitive Positioning Strategy" shareowner proposal (Attachment 4). Staff will provide an oral update at the June Investment Committee meeting.

Along with supporting the shareowner proposals at Ford and General Motors, staff was directed to identify two or three of the nine auto alliance companies that could be engaged by CalPERS staff as part of the preliminary Focus List process. Staff recently completed the 2005 Focus List process and presented the 2005 Focus List to the Investment Committee on April 18, 2005. Currently, staff is beginning the 2006 preliminary Focus List process and each of the nine auto alliance companies will be screened for possible engagement.

Initiative 3: Improve Data Transparency – Electric Power/Utilities Industry

The objective of Initiative 3 is to work together with CalSTRS to explore the viability and development of a GHG reporting project that focuses on improving adequate, accurate and timely data transparency within the Electric Power/Utilities ("Utilities") industry. Staff has met with CalSTRS staff on multiple occasions and developed an engagement strategy with respect to GHG reporting.

The focus of these discussions has now moved on to the development phase of the GHG reporting project. This phase includes identifying what environmental information public utility companies should disclose to improve transparency as well as identifying which medium a company could use to disclose such information. Additionally, staff is working to identify possible third party entities that could carry out implementation of the GHG reporting project after development.

Initiative 4: Recognize – Corporate Disclosure Best Practices

The objective of Initiative 4 is to recognize individual corporate leaders in environmental transparency and disclosure "Best Practices." Recognizing individual corporate leaders will support the acceptance of "Best Practices" in the marketplace. Staff is in the process of identifying examples of corporate disclosure best practices and will be bringing a public agenda item to the

Investment Committee in November of this year that entails the recognition of no more than two companies.

Future Plans

The four targeted initiatives will continue as planned into the 2005-2006 fiscal year. Staff plans to update the Investment Committee again in the summer of 2006.

V. STRATEGIC PLAN:

This item is not a product of either the 2004-2005 Strategic or Annual Plan.

VI. RESULTS/COSTS:

Costs associated with the Corporate Governance Environmental Strategy are absorbed by the current Investment Office budget.

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Kelly Forrest
Investment Officer, Corporate Governance

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Winston Hickox
Portfolio Manager

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William Sherwood-McGrew
Portfolio Manager, Corporate Governance

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Christianna Wood
Senior Investment Officer

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Mark Anson
Chief Investment Officer

1st April 2005

CARBON DISCLOSURE PROJECT

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London, EC1M 3JB
United Kingdom
Email: info@cdproject.net
www.cdproject.net

Name
Title
Company
Address1
Address2
Address3
Address4
Addresss5

Shareholder Request for data on your Companies Greenhouse Gas Emissions

Dear X,

On 1 February 2005 the Carbon Disclosure Project (CDP) sent you a formal request for disclosure of information from 143 shareholders with more than $20 trillion assets under management, see attached documentation. Since then, 9 more investors including CalPERS, Sumitomo Mitsui Financial Group and the Bank of Brazil have joined this request. These shareholders own a significant proportion of your company and requested this information because they require it. It is our responsibility to obtain this information for them and we would appreciate your assistance in complying with their instructions. The combined request is designed to reduce the effort required by your company.

The disclosure request consists of only nine questions. We very much hope your company will be able to deliver this information to your investors. The closing date for completed responses is 31st May 2005. If you are unable to answer all of the questions, the investors are still interested to hear what you have to say: Alex Popplewell, at Merrill Lynch Investment Managers was recently quoted in the press commenting on CDP: "There's no excuse for failing to participate in the project. If you're a company that emits very little, just say that."

60% of the FT500 corporations answered the questions in 2004 and this figure is set to rise considerably this year, so any companies not responding to this third iteration of CDP may be perceived as poorly managed.

I have attached some recent press coverage to show the high profile of this request. We hope and believe your company has the capability to respond to these nine questions. Please confirm that you have received this communication and that you will be responding by sending an email to info@cdproject.net

Yours sincerely

Paul Dickinson
Project Coordinator

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CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
7667 Folsom Blvd, MS-4
Sacramento, CA 95826

April 29, 2005

Via Overnight Courier

Richard Wagoner, Jr.
Chairman and Chief Executive Officer
General Motors Corporation
300 Renaissance Center
Detroit, MI 48265

Dear Mr. Wagoner:

We are writing to you on behalf of the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS), owners of 1,837,871 (.33%) and 2,455,225 (.44%) shares of common stock respectively in General Motors Corporation as of April 8, 2005.

The purpose of this letter is to express our strong support for a 2005 shareowner proposal requesting that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareowners (at reasonable cost and omitting proprietary information) by September 1, 2005.

With adequate, accurate and timely data disclosure, shareowners are able to more effectively make investment decisions by taking into account the business practices (including environmental practices) of the companies in which we invest. We strongly encourage the General Motors Board of Directors to comply with the shareowner proposal request. Specifically, we ask that the Board take the appropriate action on disclosing all pertinent information associated with climate change, as it relates to the 2005 shareowner proposal.

We believe the proposal facilitates improved data transparency and timely disclosure without posing any long-term harm to the company. Therefore, both CalPERS and CalSTRS will be supporting the 2005 proposal should it come to a vote at the company's upcoming annual meeting as well as hiring a proxy solicitor to encourage other shareowner support.

We would be available to discuss any pending Board action General Motors is taking to address the merits of the 2005 shareowner proposal and ask that you contact Bill McGrew, Portfolio Manager - CalPERS, at (916) 795-2431 to arrange such a meeting in person or via teleconference.

Sincerely,

Mark Anson
Chief Investment Officer, CalPERS

Christopher J. Ailman,
Chief Investment Officer, CalSTRS

CC: CalPERS Board of Administration
CalSTRS Board Members
Fred Buenrostro, Chief Executive Officer – CalPERS
Jack Ehnes, Chief Executive Officer – CalSTRS

CC: General Motors Corporation Board of Directors

Report on Emissions Reduction and Competitive Positioning Strategy 2005 – General Motors

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

General Motors bears the auto industry's highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

In September 2004, the California Air Resources Board adopted regulations requiring vehicle emissions reduction in California; other states will follow. Roughly one-quarter of the US vehicle market is currently required to meet California's standards, to which the greenhouse gas regulations will eventually be added.

Fuel-efficiency standards more stringent than U.S. standards have recently been approved in China, the fastest-growing passenger car market in the world. Most of GM's SUVs sold today in the U.S. would be illegal for sale in China by 2008.

These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota is now poised to sell more cars in the U.S. than Chevrolet and Ford combined (Associated Press 9/5/03).

In January, 2004, General Motors delayed the production of its first full hybrid vehicle, the Saturn Vue SUV, in order to develop new technologies not already patented by Toyota.

While GM is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in GM's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.